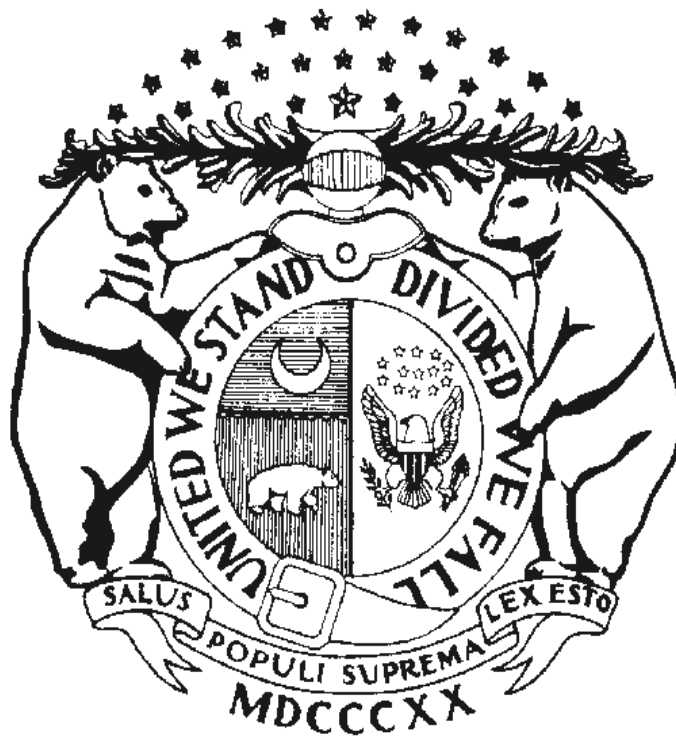


**REPORT OF THE
FINANCIAL EXAMINATION OF
INDIVIDUAL ASSURANCE COMPANY,
LIFE, HEALTH & ACCIDENT**

**AS OF
DECEMBER 31, 2002**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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Prairie Village, Kansas
March 5, 2004

Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary
Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance

Midwestern Zone Secretary
Jim Poolman, Commissioner
North Dakota Department of Insurance

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Individual Assurance Company, Life, Health & Accident

hereinafter referred to as Individual Assurance Company, as IAC, or as the Company. Its administrative office is located at 2400 West 75th Street, Prairie Village, Kansas 66208, telephone number 913-432-1451. This examination began on November 3, 2003, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Individual Assurance Company was made as of December 31, 1998, and was conducted by examiners from the state of Missouri. The current full scope association financial examination covered the period from January 1, 1999, through December 31, 2002, and was also conducted by examiners from the state of Missouri.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2002, through December 31, 2002. Information relied upon included attorney letters, tests of controls, and narrative descriptions of processes and controls.

Comments-Previous Examination

The previous financial examination of IAC was conducted by the Missouri Department of Insurance for the period ending December 31, 1998. Listed below are the comments, recommendations and notes from the previous examination report, the Company's response, and the findings in the current exam.

Holding Company, Subsidiaries and Affiliates

Comment: It was noted that the MDI had recommended the withdrawal of Robert E. Stroud, Sr.'s disclaimer of affiliation with IAC because Mr. Stroud was IAC Group, Inc.'s majority shareholder. Certain filings and disclosures would then be required pursuant to Section 382.110 (Filing of Registration Statements) and Section 382.195 (Transactions Within a Holding Company System).

Company's Response: The Company stated that references to Mr. Stroud being a majority shareholder of IAC Group, Inc. are incorrect and that no further comment was required since the matter was pending with the MDI.

Current Findings: Mr. Stroud did not withdraw his disclaimer of affiliation with IAC. Filing requirements for the ultimate controlling person of IAC have not been resolved and is an issue in the current examination. Refer to the Affiliated Companies section of this report for further information.

Intercompany Transactions

Comment: It was recommended that the commission schedule (Appendix B) to the Agency Agreement with Highland Financial Company should be amended to list current commission rates and states. Further, the commission rates should be split out between Highland's rate and the rate to be received by the producing agent.

Company's Response: The Company stated that the commission schedule (Appendix B) to the Agency Agreement is being amended to list current commission rates and states and further to specify the split between Highland's rate and the rate received by the producing agent.

Current Findings: The Company did not amend the commission schedule with Highland. However, the Company no longer pays commissions to Highland, effective November 1, 2003. Refer to the Affiliated Companies section of this report for further information.

Intercompany Transactions

Comment: It was noted that the Company paid significant amounts of commissions to Pacific Know How in 1998 but did not execute an Agency Agreement until the end of the prior examination in August 1999. It was recommended that the Company should ensure that adequate agreements are executed before affiliated transactions occur.

Company's Response: The Company stated that it believes there was a written agency agreement with Pacific Know How, but unfortunately, the Company was unable to produce a copy of that agreement during the examination. The Company stated that it will continue to prepare appropriate agreements before transactions are entered into with related companies.

Current Findings: There were no instances of new transactions with affiliates commencing in the examination period.

Intercompany Transactions

Comment: It was recommended that a global service agreement or individual service agreements should be executed with affiliates for which IAC provides management services. The agreement or agreements should explain the services provided by IAC, any compensation to be received or fees charged, allocation methods, settlement terms, etc.

Company's Response: The Company stated that it was in the process of entering into a global services agreement with each of the companies for which IAC provides any management, accounting or similar services.

Current Findings: The Company did not enter into a global service agreement with its affiliates. The comment from the prior examination is repeated in the Intercompany Transactions section of this report.

Trust Agreements

Comment: It was recommended that the Company should execute new trust agreements with Funeral Security Life Insurance Company (FSLIC) and Westport Insurance Company (Westport) or significantly amend the current agreements to be in compliance with Missouri Regulation 20 CSR 200-2.100(8).

Company's Response: The Company stated that the two trust agreements have been amended and restated and were submitted to the MDI.

Current Findings: The trust agreements reviewed in the current examination were found to be in compliance with Missouri regulations with only minor variances.

HISTORY

General

Individual Assurance Company was incorporated on October 18, 1973, and commenced business on January 1, 1974, under Chapter 376 RSMo (Life, Health and Accident Insurance). IAC's principal lines of business include credit life insurance, credit accident and health insurance, and ordinary and group life insurance.

Capital Stock

The Company had 1,250,000 shares of authorized and outstanding common stock as of December 31, 2002. The common stock has a par value of \$2.00 per share, for a total par value of \$2,500,000. All of the common stock was owned entirely by IAC Group, Inc.

Dividends

A cash dividend of \$234,000 was paid to IAC Group, Inc. in January 2002. No other dividends or cash distributions were made or declared during the examination period.

Management

The Company's Bylaws specify that the Board of Directors shall consist of ten members, which is in compliance with section 376.060 RSMo (Joint Stock Insurers: Charter Documents).

The Board of Directors elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
Robert E. Stroud	Shawnee Mission, KS	President, Institutional Agencies Corp. and Westport Life Insurance Company
Margaret M. Owen	Marydel, DE	Retired (former President of IAC)
Howard M. Strickland	Grandview, MO	Retired (former Vice President of IAC)
Ronald F. Jones	Mission Hills, KS	Senior Vice President, IAC
Charles E. Cain	Overland Park, KS	Executive Vice President, Secretary and Treasurer, IAC
SueAnn S. Wright	Shawnee Mission, KS	Chief Executive Officer, IAC
James L. Stroud	Independence, MO	President, Acme Products Company
Michael M. Strickland	Overland Park, KS	President, IAC
Robert M. Fitzpatrick	Overland Park, KS	Vice President, First Tennessee Capital Markets
Robert E. Stroud, Jr.	Leawood, KS	Marketing – Self Employed

The committees of the Board of Directors consist of an Executive Committee, an Investment Committee, and an Internal Audit Committee. These committees operate in accordance with the Company's Bylaws. The members of the committees as of December 31, 2002, were as follows:

<u>Executive Committee</u>	<u>Investment Committee</u>	<u>Internal Audit Committee</u>
Robert E. Stroud	Ronald F. Jones	Robert E. Stroud
SueAnn S. Wright	Charles E. Cain	Charles E. Cain
Michael M. Strickland	Robert E. Stroud	Michael M. Strickland
Charles E. Cain	SueAnn S. Wright	

The senior officers elected and serving as of December 31, 2002, were as follows:

Chairman of the Board	Robert E. Stroud
Vice Chairman of the Board and Chief Executive Officer	SueAnn S. Wright
President	Michael M. Strickland
Executive Vice President, Treasurer and Secretary	Charles E. Cain
Senior Vice President – Investments	Ronald F. Jones
Senior Vice President – Mgmt. Info. Systems	James A. Huslig
Vice President – Business Development	Diana L. Santellan
Vice President – Operations	David J. Presar
Vice President – Finance, Assistant Treasurer	John A. Diebold
Vice President – Marketing	Lee Ann Hollister
Vice President – Sales	Brian S. Sheldon#

Mr. Sheldon resigned in January 2003 and was replaced by Chris C. Bryan and Greg S. Janssen.

The Board of Directors also elected eight Assistant Vice Presidents and an Assistant Secretary that were serving as of December 31, 2002.

Conflict of Interest

The Company's conflict of interest policy requires conflict of interest questionnaire forms to be completed each year by directors, officers, and key employees. The Secretary reviews the completed forms and reports to the Board of Directors. The conflict of interest forms completed during the examination period and the subsequent period through the date of this report were reviewed. No material conflicts were disclosed.

Corporate Records

The Articles of Incorporation and the Bylaws were reviewed. The Articles of Incorporation were amended on March 11, 1999, to increase the par value of common stock from \$1.20 per share to \$2.00 per share. The Bylaws were not amended during the examination period.

The Board of Directors, committee, and shareholder minutes were also reviewed and, in general, appear to properly reflect and approve the Company's transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Individual Assurance Company is a wholly owned subsidiary of IAC Group, Inc (IAC Group), a holding company. IAC Group has no significant business operations other than its ownership of IAC. The Company's founder, Robert E. Stroud, Sr., and his daughter, SueAnn S. Wright, own or control the majority of the IAC Group stock. Other Stroud family members also own shares of IAC Group. The table below summarizes the shares owned or controlled by Mr. Stroud and Ms. Wright.

<u>IAC Group Shares</u>	<u>Robert E Stroud, Sr.</u>	<u>SueAnn S. Wright</u>	<u>Total Shares</u>
Owned Directly	2,832	590	
Owned Indirectly *	28	442	
Controlled	<u>640</u> **	<u>2,809</u> ***	
Subtotal	3,500	3,841	10,724
Percentage of Total	32.6%	35.8%	

* Represents interest in IAC Group shares owned by Highland Financial Company

** Represents voting control of shares owned by a son, Robert E. Stroud, Jr.

*** Represents shares controlled as trustee for a voting trust

As shown above, SueAnn S. Wright is the ultimate controlling person of IAC, and therefore, is required to annually file personal financial statements with the MDI, pursuant to Section 382.110 RSMo (Filing of Registration Statements). Ms. Wright is directed to submit her personal financial statements as part of the IAC's annual Form B filing, as required by Missouri Regulation 20 CSR 200-11.101 (Insurance Company Holding Company System Regulation with Reporting Forms and Instructions).

IAC owns 100% of the voting stock of Westport Life Insurance Company (WLIC), an Arizona domiciled reinsurer of credit life and credit accident and health business. Two classes of non-voting stock of WLIC are owned by a group of approximately 200 banks throughout the United States for purposes of reinsuring risks. The operations of WLIC are further discussed in the Reinsurance section of this report.

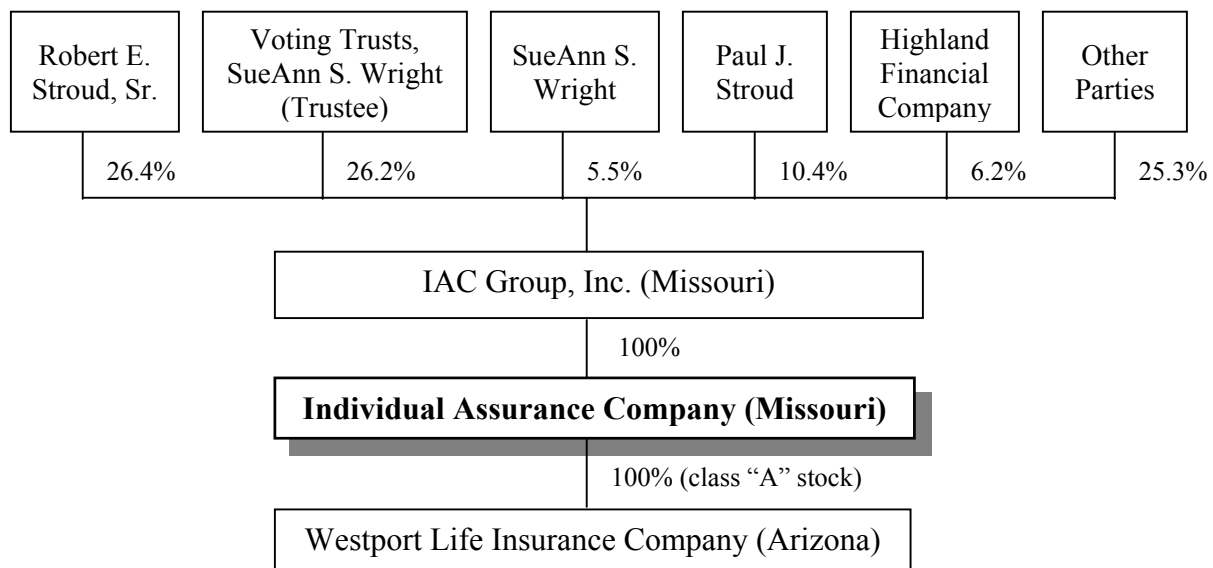
The Company is also affiliated with two separate holding companies, Highland Financial Company (Highland) and Institutional Agencies Corporation (Institutional Agencies). The two holding companies are related to IAC through common ownership. SueAnn S. Wright owns or controls 62% of Highland stock and 44% of Institutional Agencies stock. Ms. Wright stock is the majority controlling entity of both of these entities. Seven companies are included in the two affiliated holding companies, which are described as follows:

- Highland was the sole agency that marketed IAC's products in the United States. Effective November 1, 2003, all Highland employees were transferred to IAC. Currently, Highland is a shell holding company that owns Pacific Know How Limited (Pacific Know How), Transwestern Industries, and Insured Accounts Company. Highland owned 6.24% of the common stock of IAC Group at December 31, 2002.
- Pacific Know How Limited was the marketing and sales agency for IAC's products in the Pacific island region. Effective November 1, 2003, all Pacific Know How employees were transferred to IAC. Pacific Know How currently has no operations.
- Transwestern Industries is an insurance broker that places life and health risks, but does not transact business with IAC.
- Insured Accounts Company is a sales agency that promotes insurance companies that sell collateral protection insurance in conjunction with loans issued by financial institutions and also does not transact business with IAC.
- Institutional Agencies Corporation (Institutional Agencies) is a shell holding company that owns two non-insurance entities: Acme Products Company (Acme Products) and Service Marketing, Inc. (SMI).
- Acme Products is a manufacturer of towing accessories.
- SMI is a marketing and sales agency that services Acme and other third party manufacturers.

An Insurance Company Holding Company System Registration Statement (Form B) was filed by the Company with the MDI for the period ended December 31, 2002. None of the transactions or agreements with the companies in the Highland holding company system were disclosed. Section 382.110 RSMo (Filing of Registration Statements) requires the annual disclosure of affiliated agreements, transactions, and other information in annual registration filings. Therefore, the Company is directed to disclose its transactions with all entities in the Highland holding company system and any other affiliated companies in the annual Form B and Form C filings required by Missouri Regulation 20 CSR 200-11.101.

Organizational Chart

The following organizational chart depicts the IAC Group holding company structure, as of December 31, 2002:



Intercompany Transactions

The Company's intercompany agreements in effect, as of December 31, 2002, are outlined below.

1. **Type:** Reimbursement Agreement
- Affiliate:** Westport Life Insurance Company
- Effective:** January 1, 1991
- Terms:** WLIC is allocated 25% of the salaries of the IAC executives that manage the business of WLIC. Also allocated to WLIC are 25% of certain overhead expenses as agreed upon by both parties.

- 2. Type:** Agency Agreement
Affiliate: Highland Financial Company
Effective: November 1, 1991 (terminated November 1, 2003)
Terms: Highland was paid commissions for business produced in the United States. A commission schedule on Appendix B lists the commission rates by state and by product.
- 3. Type:** Agency Agreement
Affiliate: Pacific Know How
Effective: January 1, 1991 (terminated November 1, 2003)
Terms: Pacific Know How is paid commissions for business produced in the Pacific region. The commission rates vary depending on the type of product sold and are listed on Appendix B.
- 4. Type:** Tax Allocation Agreement
Affiliate: IAC Group
Effective: January 1, 1996 until terminated.
Terms: IAC and IAC Group file a consolidated federal income tax return. The allocation of the consolidated tax liability to each company is based upon each company's liability on a stand-alone basis. Intercompany tax settlements are to be made within 90 days after the filing of the tax return.
Exception: WLIC is included in the consolidated federal income tax return, but is not a named party to the Tax Allocation Agreement. An amendment should be executed to add WLIC to the agreement.

In addition to the above listed agreements, IAC also has a reinsurance agreement with WLIC, which is described in the Reinsurance section of this report.

IAC had a Reimbursement Agreement with Institutional Agencies, effective January 1, 1994 to provide accounting and legal services for Institutional Agencies and its two subsidiaries, Acme and SMI. The services that were provided by IAC employees are currently provided by employees of Acme and SMI, which began in 2001. Thus, the Reimbursement Agreement was terminated.

In 2001, the Company obtained two promissory notes and cash totaling \$335,000 from Institutional Agencies in exchange for a building with a book value of \$82,728 and an appraised value of \$335,000.

Employees of IAC perform various management services for Transwestern Industries, Inc. and Insured Accounts Company that are not subject to a written service agreement. IAC does not appear to be compensated for providing these services. A global service agreement or individual service agreements with each affiliate should be executed, which will explain all services provided by IAC, any compensation to be received or fees charged, allocation methods, settlement terms, etc. Such agreement should be submitted to the MDI for prior approval in a Form D filing, as required by Section 382.195 (Transactions Within a Holding Company System).

Intercompany Payments

The following table summarizes the payments made during the exam period, between IAC and its affiliates.

Related Party	Agreement or Transaction	Net Amount Paid / (Received)			
		1999	2000	2001	2002
WLIC	Reimbursement	(\$ 415,039)	(\$ 283,579)	(\$ 378,341)	(\$ 220,727)
WLIC	Tax Allocation	84,664	0	(296,039)	(94,211)
WLIC	Reinsurance	3,290,165	970,795	2,275,242	733,863
Institutional Agencies	Reimbursement	#	(22,822)	n/a	n/a
Highland	Agency	1,741,838	1,591,697	1,554,017	1,791,280
Highland	Expense Reimb.	#	(1,406,913)	(1,523,959)	(1,935,721)
Pacific Know How	Agency	604,481	679,198	758,148	738,259
Pacific Know How	Expense Reimb.	#	(587,101)	(839,731)	(2,140,219)
TOTAL		\$5,306,109	\$941,275	\$1,549,337	(\$1,127,476)

The Company could not provide payment information

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond with a liability limit of \$1,000,000 and a \$5,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance, according to NAIC guidelines.

The Company is also a named insured on the following other insurance policies: property, general liability, automobile liability, directors' and officers' liability, employment practices liability, workers compensation, and commercial umbrella coverage. These additional insurance coverages appear to be adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

IAC employees are provided standard benefits that include, but are not limited to, medical and dental insurance, life insurance, accidental death and dismemberment benefits, short and long-term disability, and medical and dependent care reimbursement. The Company does not have a pension plan, but instead has a 401(k) savings plan for employees in which the Company matches 50% of eligible employee contributions up to 3% of such employee's salary. The Company also makes additional discretionary contributions to the 401(k) savings plan, which were 3% of each employee's salary during each year of the examination period. The Company appears to have adequately accounted for employee benefits in the financial statements.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with section 376.290 RSMo (Trust Deposits). The funds on deposit as of December 31, 2002, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$1,500,000	\$1,579,530	\$1,498,339

Deposits with Other States, Territories, and Countries

The Company also has funds on deposit with other states, U.S. territories, and countries in which it is licensed. Those funds on deposit, as of December 31, 2002, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arkansas	U.S. Treasury Note	\$ 200,000	\$ 203,000	\$ 199,836
Federated States of Micronesia	Certificate of Deposit	105,000	105,000	105,000
Georgia	U.S. Treasury Note	50,000	53,922	50,087
Guam	Certificate of Deposit	52,568	52,568	52,568
New Mexico	Certificate of Deposit	100,000	100,000	100,000
North Carolina	U.S. Treasury Note	200,000	210,688	199,414
South Carolina	U.S. Treasury Note	175,000	177,298	175,000
Virginia	U.S. Treasury Note	<u>100,000</u>	<u>107,844</u>	<u>100,000</u>
Total		<u>\$982,568</u>	<u>\$1,010,320</u>	<u>\$981,905</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Individual Assurance Company is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life and Accident Insurance) to write the following lines of business: life, annuities and endowments, and accident and health.

The Company is licensed to write business in 43 states and the U.S. territories of Guam and the Commonwealth of Northern Marianas Islands in the Pacific island region. The only seven states in which IAC is not licensed are Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. The Company is also licensed in the Federated States of Micronesia and the Republic of the Marshall Islands, which are two independent nations also located in the Pacific region.

Premiums from the Pacific region accounted for 36% of 2002 direct written premiums. In the United States, the states with the largest percentage of 2002 direct written premiums were Missouri (15%), Pennsylvania (9%), and Illinois (8%).

The Company writes credit life and credit accident and health (A&H) policies that are sold in the United States mostly by banks and financial institutions, which act as agencies for IAC. The banks and financial institutions also produce small amounts of ordinary life and group mortgage insurance business for IAC. The credit life and credit A&H lines of business accounted for 33% and 25%, respectively, of direct earned premiums in 2002. The Company's affiliate, Highland Financial Company, managed the sales and service functions for most of IAC's products in the United States. Effective November 1, 2003, all Highland Financial Company employees were transferred to IAC.

The Company provides group term life insurance for the government employees of the U.S. territories and the independent nations in the Pacific island region. The Company also issues universal life insurance to the government employees to supplement the group life insurance coverage. The group life and ordinary life lines of business accounted for 24% and 16%, respectively, of direct earned premiums in 2002. The Company's affiliate, Pacific Know How Limited, managed the sales and service functions for IAC's products in the Pacific island region. Effective November 1, 2003, all Pacific Know How Limited employees were transferred to IAC.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. However, no market conduct reports were issued by the MDI or by any other state during the examination period.

REINSURANCE

General

The Company's premium activity on a direct earned, assumed and ceded basis, for the period under examination, is detailed below:

<u>Premiums:</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Direct Business	\$50,449,097	\$47,938,643	\$46,960,652	\$45,444,321
Reinsurance Assumed:				
Affiliates	0	0	0	0
Non-affiliates	3,912,092	593,810	704,008	904,384
Reinsurance Ceded:				
Affiliates	(8,142,478)	(5,365,121)	(6,502,450)	(5,353,845)
Non-affiliates	<u>(20,482,368)</u>	<u>(14,275,746)</u>	<u>(14,390,247)</u>	<u>(14,176,898)</u>
Net Earned Premiums	<u>\$25,736,343</u>	<u>\$28,891,586</u>	<u>\$26,771,963</u>	<u>\$26,817,962</u>

Assumed

The Company's only significant assumed business is group life insurance assumed from Prudential Insurance Company of America (Prudential) in conjunction with the Servicemen's Group Life Insurance (SGLI) pooling program for military personnel. Prudential is the direct writer for the SGLI program while numerous other companies (including IAC) participate by assuming specific percentages of the total business. Assumed premiums from the SGLI program accounted for 95% of IAC's total assumed premiums in 2002.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement. Only significant ceded reinsurance treaties are discussed below.

A summary of IAC's reinsurers with significant ceded reserves, as of December 31, 2002, is as follows:

<u>Reinsurer</u>	<u>Ceded Life Reserves</u>	<u>Percent of Total Ceded Life Reserves</u>	<u>Ceded A&H Reserves</u>	<u>Percent of Total Ceded A&H Reserves</u>
Lincoln Memorial Life Insurance Co.	\$26,239,538	46%	0	-na-
Madison National Life Insurance Co.	4,894,169	9%	0	-na-
Munich American Reinsurance Co.	4,043,790	7%	5,323,022	27%
RGA Reinsurance Company	7,490,842	13%	7,945,709	40%
Westport Life Insurance Company	6,606,243	12%	2,718,362	14%

The reinsurance agreements in effect, as of December 31, 2002, with the above listed reinsurers, are described below.

IAC's largest line of business is credit life and credit accident and health (A&H) sold in the United States. The credit business is reinsured on a primary layer by captive reinsurance companies and IAC's subsidiary, Westport Life Insurance Company. The captive reinsurers are

owned by banks and financial institutions that produce business for IAC. These reinsurers are “captive” because they only reinsure IAC business that is produced by their parent bank or financial institution. WLIC is also captive to IAC because its only business is to reinsure IAC’s risks.

WLIC actually consists of approximately 200 banks and financial institutions throughout the United States that own WLIC’s non-voting stock. IAC controls WLIC by owning 100% of its voting stock. The banks sell credit insurance for IAC in conjunction with the issuance of loans. WLIC exists to facilitate the reinsurance activities of the banks through a single entity. The banks are able to reinsure risks that they produced without having to establish a separate reinsurance company. Effectively, WLIC is an intermediary for reinsurance between IAC and the banks.

The Company has a reinsurance agreement, effective January 1, 1998, with Westport Life Insurance Company to reinsure credit life and credit A&H business. IAC cedes the first \$10,000 of subject life risks and 20% of subject A&H risks to WLIC. There are minor variations to these limits for a few producers.

IAC has two reinsurance agreements with RGA Reinsurance Company (RGA), which provide second layer coverage for the credit business. The first agreement, effective December 1, 1994, was terminated April 30, 2001, due to a change in the intermediary. The second agreement with RGA, effective May 1, 2001, has essentially the same terms as the first agreement and was terminated, effective March 31, 2002. Under both agreements, RGA is ceded 25% of the first \$25,000 of life risks, 100% of life risks over \$25,000, and 75% of all A&H losses. The maximum policy limits subject to reinsurance are \$150,000 for life and \$90,000 for

A&H. IAC's retentions vary if there is first layer coverage through captive reinsurers (including WLIC). The Company's minimum retentions are \$1,250 per life risk and 5% of A&H risks.

The Company has a reinsurance agreement, effective April 1, 2002, with Munich American Reinsurance Company (MARC), to provide second layer coverage for the credit business. This agreement replaces the agreement with RGA that was terminated, effective March 31, 2002, as previously explained. The retentions and limits of the treaty with MARC are the same as those in the treaty with RGA, except that only 60% of A&H losses are ceded to MARC and IAC's minimum retention per life risk is \$3,750.

The Company has a reinsurance agreement, effective October 28, 1987, with Funeral Security Life Insurance Company (FSLIC). This agreement cedes risks for IAC's whole life and annuity policies that were sold by a funeral home company for pre-need burial plans. FSLIC was a captive insurance subsidiary of the funeral home company that sold the policies. Policies issued in the state of California are reinsured 90% by FSLIC while all other policies are reinsured 100%. This agreement is in run-off since no new policies for this block of business have been written since 1991. The Company stated that FSLIC was purchased and merged into Lincoln Memorial Life Insurance Company. However, the reinsurance agreement has not been amended to reflect this change. The Company is directed to amend the agreement with FSLIC to document that Lincoln Memorial Life Insurance Company is the reinsurer.

The Company has a coinsurance agreement with National Heritage Life Insurance Company (NHL), effective July 1, 1986 and terminated May 1, 1991. This agreement pertains to a block of life and annuity business. An Assignment and Amendment of Coinsurance Agreement, effective December 31, 1997, transferred the obligations under the coinsurance agreement from NHL to Madison National Life Insurance Company (Madison). An Assumption

Reinsurance Agreement was also executed December 31, 1997, to transfer the underlying primary policies to Madison. However, several policyholders did not approve the transfer and remain IAC policyholders.

IAC also has significant reinsurance agreements with ERC Life Reinsurance Corporation (ERC Life) for its group and universal life insurance sold to government employees and other individuals in the Pacific island region. Amounts ceded to ERC Life represented 32% of all ceded premiums in 2002 and 65% of ceded in-force, as of December 31, 2002. The reinsurance coverage is on a yearly renewable term basis and therefore, only represented 2% of ceded life reserves. IAC generally retains \$50,000 of each insured risk and ERC Life is ceded amounts in excess of \$50,000. Other retentions and limits apply depending on the type of risk, which are defined in the agreements.

The Company had a catastrophe reinsurance agreement with Reliastar Life Insurance Company (Reliastar, formerly Northwestern National Life Insurance Company) that covered life risks. This agreement was effective from 1991 until it was terminated by Reliastar in 2002. The Company has been unsuccessful in finding replacement catastrophe coverage. IAC has a high concentration of insured lives in small islands (Guam, Federated States of Micronesia, Commonwealth of Northern Marianas Islands, Marshall Islands) in the Pacific Ocean. The risk of hurricanes in that area makes this coverage especially essential for IAC. The Company is directed to continue its attempts to obtain catastrophe reinsurance coverage.

ACCOUNTS AND RECORDS

The CPA firm, KPMG, LLP, of Kansas City, Missouri, issued audited statutory financial statements of the Company for all years in the examination period.

The actuarial opinion regarding the Company's policy and claim reserves was issued by Glen A. Gusewelle, ASA, MAAA, for all years in the examination period. Mr. Gusewelle is employed by Miller & Newberg, Inc., of Olathe, Kansas.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of IAC for the period ending December 31, 2002. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets as of December 31, 2002

	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$31,001,999	\$ 0	\$31,001,999
Preferred Stocks	175,000	0	175,000
Common Stocks	1,634,778	0	1,634,778
Mortgage Loans on Real Estate	57,765	0	57,765
Real Estate	4,249,279	0	4,249,279
Policy Loans	964,617	0	964,617
Cash and Short-term Investments	3,831,171	0	3,831,171
Amounts Recoverable from Reinsurers	2,456,616	0	2,456,616
Commissions and Expense Allow. Due	1,120,548	0	1,120,548
Electronic Data Processing Equipment	654,962	171,951	483,011
Federal Income Tax Recoverable	739,480	0	739,480
Guaranty Funds Receivable	31,778	31,778	0
Life Insurance Premiums and Annuity Considerations Deferred and Uncollected	1,276,500	15	1,276,485
Investment Income Due and Accrued	373,254	0	373,254
Receivable from Parent, Sub., and Affiliates	107,303	0	107,303
Amounts Due from Agents	977,551	0	977,551
Other Assets Nonadmitted	577,395	577,395	0
Agg, Write-Ins for Other than Invested Assets:	0	0	0
Prepaid Expenses	56,752	56,752	0
Other Receivables	18,050	0	18,050
Reinsurance Premiums Receivable	679,644	0	679,644
TOTAL ASSETS	<u>\$50,984,442</u>	<u>\$837,891</u>	<u>\$50,146,551</u>

Liabilities, Surplus and Other Funds as of December 31, 2002

Aggregate Reserve for Life Policies and Contracts	\$19,991,717
Aggregate Reserve for Accident and Health Policies	4,080,323
Liability for Deposit-Type Contracts	1,083,865
Policy and Contract Claims – Life	2,220,079
Policy and Contract Claims – Accident and Health	1,477,887
Provision for Dividends Not Yet Apportioned	8,195
Premiums Received in Advance	40,858
Other Amounts Payable on Reinsurance	12
Interest Maintenance Reserve	0
Commissions to Agents Due or Accrued	57,812
Commissions Payable on Reinsurance Assumed	27,331
General Expenses Due or Accrued	626,872
Taxes, Licenses and Fees Due or Accrued	162,928
Unearned Investment Income	33,470
Remittances and Items Not Allocated	171,157
Asset Valuation Reserve	372,571
Funds Held Under Reinsurance Treaties	5,475
Aggregate Write-Ins for Liabilities:	0
Unclaimed Property	159,202
Reinsurance Premiums Payable	2,100,302
Other Accounts Payable	<u>423,152</u>
TOTAL LIABILITIES	\$33,043,208
Common Capital Stock	2,500,000
Gross Paid In and Contributed Surplus	595,420
Unassigned Funds (Surplus)	<u>14,007,923</u>
Capital and Surplus	\$17,103,343
TOTAL LIABILITIES AND SURPLUS	<u>\$50,146,551</u>

Summary of Operations

For the Year Ended December 31, 2002

Premiums and Annuity Considerations	\$26,817,963
Net Investment Income	1,922,678
Amortization of Interest Maintenance Reserve	233
Commission and Expense Allowances on Reins. Ceded	4,673,853
Miscellaneous Income – Service Fees	<u>41,071</u>
TOTAL	\$33,455,798
Death Benefits	8,514,685
Matured Endowments	19,471
Annuity Benefits	10,834
Disability Benefits and Benefits Under A&H Policies	657,561
Surrender Benefits and Withdrawals for Life Contracts	1,895,749
Interest on Contract or Deposit-Type Funds	49,495
Increase in Aggregate Reserves for Life, A&H Policies	3,288,950
Commissions on Premiums and Annuity Considerations	14,304,187
Commissions and Expense Allowances on Reins. Assumed	10,762
General Insurance Expenses	5,845,591
Insurance Taxes, Licenses and Fees	1,297,005
Increase in Loading on Deferred and Uncollected Premiums	<u>169,184</u>
TOTAL	\$36,063,474
Net Gain from Operations	(\$2,607,676)
Dividends to Policyholders	6,890
Federal Income Taxes Incurred	(414,936)
Net Realized Capital Gains or Losses Transferred to the IMR	<u>3,553,269</u>
NET INCOME	<u>\$1,353,639</u>
CAPITAL AND SURPLUS:	
Capital and Surplus, December 31, 2001	16,355,776
Net Income	1,353,639
Change in Net Unrealized Capital Gains or (Losses)	210,015
Change in Deferred Income Tax	23,675
Change in Non-Admitted Assets	(496,076)
Change in Reserve on Account of Change in Valuation Bases	(81,783)
Change in Asset Valuation Reserve	<u>(261,903)</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2002	<u>\$17,103,343</u>

Notes to the Financial Statements

--None--

Examination Changes

--None--

General Comments and/or Recommendations

Intercompany Transactions (pages 8 and 9)

SueAnn S. Wright is the ultimate controlling person of IAC Group and IAC, pursuant to Section 382.010 RSMo (Definitions). As the ultimate controlling person of IAC, SueAnn S. Wright is required to annually file personal financial statements with the MDI, pursuant to Section 382.110 RSMo (Filing of Registration Statements). Ms. Wright is directed to submit her personal financial statements as part of the IAC's annual Form B filing, as required by Missouri Regulation 20 CSR 200-11.101 (Insurance Company Holding Company System Regulation with Reporting Forms and Instructions).

Intercompany Transactions (page 10)

Highland Financial Company, Institutional Agencies Corporation, and their subsidiaries are affiliates of IAC due to common control by SueAnn S. Wright. None of the transactions or agreements with the companies in the Highland holding company system were disclosed in the Form B filing for the year ended December 31, 2002. The Company is directed to disclose its transactions with all entities in the Highland holding company system and any other affiliated companies in the annual Form B and Form C filings as required by Missouri Regulation 20 CSR 200-11.101 and Section 382.110 RSMo (Filing of Registration Statements).

Tax Allocation Agreement (page 12)

Westport Life Insurance Company is included in the consolidated federal income tax return with IAC and IAC Group, Inc., but is not a named party to the Tax Allocation Agreement. An amendment should be executed to add WLIC to the agreement.

Intercompany Transactions (pages 13)

A global service agreement or individual service agreements should be executed with the affiliates, for which IAC provides various management services. These services are not currently subject to any agreement and IAC is not compensated. The agreement or agreements should explain the services provided by IAC, any compensation to be received or fees charged, allocation methods, settlement terms, etc.

Reinsurance Agreements (page 20)

The Company has a reinsurance agreement, effective October 28, 1987, with Funeral Security Life Insurance Company (FSLIC). The Company stated that FSLIC was purchased and merged into Lincoln Memorial Life Insurance Company. However, the reinsurance agreement has not been amended to reflect this change. The Company is directed to amend the agreement with FSLIC to document that Lincoln Memorial Life Insurance Company is the reinsurer.

Catastrophe Reinsurance (page 21)

The Company is directed to continue its attempts to obtain catastrophe reinsurance coverage for its life risks in the Pacific island region.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Individual Assurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CPA, Leslie Nehring, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, participated in this examination. The firm of Milliman USA also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
 County of)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Individual Assurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance

Sworn to and subscribed before me this 28th day of April, 2004.

My commission expires: Oct. 7, 2005 Rayna S. Rice
 Notary Public

RAYNA S. RICE
 Notary Public - State of Missouri
 County of Cole
 My Commission Expires Oct. 7, 2005

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese

Frederick G. Heese, CFE, CPA
 Audit Manager
 Missouri Department of Insurance

